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IN THE

Supreme Court of the United States

MICROSOFT CORPORATION,

Petitioner,

v.

EOLAS TECHNOLOGIES INCORPORATED AND THE REGENTS OF THE UNIVERSITY OF CALIFORNIA,

Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

PETITIONER'S REPLY BRIEF

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PETITIONER'S REPLY BRIEF

Respondents devote the bulk of their Brief in Opposition to the merits of the question presented. The little attention they pay to the traditional criteria for certiorari (a mere two pages, Opp. 4-6) is nothing more than a fig leaf. Though the case has been remanded for further proceedings, its interlocutory posture presents no reason for denying review now, because the issue presented is sufficiently important and the rule of law adopted by the court of appeals has and will continue to have a substantial effect on private sector investment decisions regardless of what happens on remand. Further, contrary to Respondents' suggestion (*id.* at 5-6), the "full scope" of § 271(f) is before this Court and was before the Federal Circuit. There is simply no way to the chop the statute into its linguistic parts and pretend that an argument that emphasized one statutory term is somehow different than

the same argument that emphasized a different, but inextricably related, term. Finally, the lack of a split of authority is no reason to deny certiorari, because the Federal Circuit has exclusive patent law jurisdiction. Indeed, a review of the Federal Circuit's own decisions concerning § 271(f) reveals that the court of appeals is hopelessly confused about the statute's meaning and scope and needs authoritative guidance from this Court.

The fact is that the traditional considerations weigh in favor of granting certiorari. That is why Respondents seek to avoid review by assuring the Court that the decision below was correct. But the analytical framework Respondents (and the Federal Circuit) constructed to support holding Microsoft liable for foreign sales of allegedly infringing Windows-operated computers cannot withstand scrutiny.

1. Traditional considerations support granting certiorari to define authoritatively the scope of § 271(f). The petition presents a recurring issue in patent law. The scope of patent infringement liability under § 271(f) has been the subject of several decisions by the Federal Circuit. The multiplicity of views expressed by the judges of that court reveals the need for this Court to impose a uniform and clear standard. The need for clarity is particularly important in light of the issue's potential impact on the nation's economy. The interpretation of § 271(f) will direct the flow of substantial research and development capital by private entities. Pet. 21-23. This case presents this Court with the opportunity to clarify the scope of § 271(f) for the Federal Circuit and private enterprise alike.

It is true that the issue presented here arises in an interlocutory posture. But that fact has hardly proved a deterrent to this Court's review when issues of similar importance were presented to it. Just last Term, this Court decided *Metro-Goldwyn-Mayer Studios, Inc.* v. *Grokster, Ltd.*, 125 S. Ct. 2764 (2005), despite the fact that the petition arose from an interlocutory ruling. *Id.* at 2774-75. The case concerned the liability of peer-to-peer networks for copyright

infringement that occurred over their networks. The interlocutory ruling's potential impact on both the development of peer-to-peer software and networks and the incentive to create copyrighted works warranted this Court's immediate review. Likewise, in *Norfolk Southern Railway* v. *Kirby*, 125 S. Ct. 385, 392 (2004), this Court reviewed on an interlocutory basis a ruling that threatened to undermine the settled expectations of carriers in the international shipping industry who rely upon the enforceability of limited liability clauses. As here, the potential impact on international trade warranted immediate review, and the Court decided the case on the merits.[1]

Respondents further suggest that this case is an inappropriate vehicle for addressing the scope of § 271(f) because the Federal Circuit decision spoke only of whether software is a "component" of a patented invention within the meaning of the statute. Opp. 6. But which statutory terms the Federal Circuit chose to discuss does not confine the scope of this Court's inquiry. The scope of the important question in this case is defined by the undisputed facts. Microsoft creates a "golden master" disk in the United States. This disk is a physical manifestation of the Windows software code. The disk is shipped overseas to a foreign Original Equipment Manufacturer ("OEM"). The foreign OEM, using the disk as a master guide, manufactures new disks and hard drives with physical structures that reflect the Windows software code; those physical structures, in turn, produce a particular configuration of the circuitry of the computers' processors.

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[1] Other civil cases from last Term reviewed on an interlocutory basis include *Exxon Mobil Corp.* v. *Allapattah Services, Inc.*, 125 S. Ct. 2611, 2615 (2005) (interlocutory review of supplemental jurisdiction statute); *Graham County Soil & Water Conservation District* v. *U.S. ex rel. Wilson*, 125 S. Ct. 2444, 2448 (2005) (interlocutory review of proper statute of limitations for False Claims Act claims); *Cutter* v. *Wilkinson*, 125 S. Ct. 2113, 2120 (2005) (interlocutory review of constitutionality of Religious Land Use and Institutionalized Persons Act); and *Tenet* v. *Doe*, 125 S. Ct. 1230, 1235 (2005) (interlocutory review of propriety of suits to enforce allegedly secret espionage agreement with United States).

The results are Windows-operated computers. It is these computers that are the subject of the petition. The question is whether these undisputed facts create liability under § 271(f).

Microsoft maintains (and maintained below) that there is no liability because the allegedly infringing device—the foreign-made Windows-operated computer—has no "component" that was "supplied" from the United States and "combined" with other components. All that is "supplied" from the United States—the golden master disk—never becomes a part of the allegedly infringing device, so it is not a "component" of that device. Likewise, the golden master disk is never "combined" with any other parts to make an allegedly infringing device. There is no way to disentangle the three critical statutory terms because they all reflect different aspects of Microsoft's single argument.

Finally, Respondents claim that this Court should deny the petition because the Federal Circuit's exclusive appellate jurisdiction over patent law disputes ensures that "[t]here is no disparity of treatment among litigants in different areas of the country that would warrant intervention rather than allowing Congress to decide whether any change in the statute is advisable." Opp. 5. If taken seriously, this Court would never review *any* patent law dispute. Of course, this Court has never hesitated to review patent law issues when the circumstances warranted, despite the obvious absence of an intercircuit conflict. See, *e.g.*, *Merck KGaA* v. *Integra Lifesciences I, Ltd.*, 125 S. Ct. 2372 (2005); *Festo Corp.* v. *Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722 (2002).

Further, the Federal Circuit's effort, since its decision in this case, to follow the logic of the ruling below is producing conflict within that court and confusion for those whose business activities are subject to the vagaries of § 271(f) as interpreted by that court. Earlier this month, the Federal Circuit announced that "§ 271(f) governs method/process inventions" so that an accused infringer may be held liable for supplying a component of a patented process for use abroad.

Union Carbide Chems. & Plastics Tech. Corp. v. *Shell Oil Co.*, Nos. 04-1475, 04-1512, 2005 WL 2416329, at *12 (Fed. Cir. Oct. 3, 2005). This holding was said to follow from the decision below, which had rejected Microsoft's argument that § 271(f) should be limited to physical "components" shipped abroad and "combined" into an allegedly infringing device. *Id.* at *10-*12. The holding in *Union Carbide* directly conflicts with an earlier ruling of the Federal Circuit (uncited in *Union Carbide*) that had held that § 271(f) is not "implicated" by the alleged infringement of process patents. *Standard Havens Prods., Inc.* v. *Gencor Indus., Inc.*, 953 F.2d 1360, 1374 (Fed. Cir. 1991). And, the holding runs counter to the Federal Circuit's statement earlier this year that "it is difficult to conceive how one might supply or cause to be supplied all or a substantial portion of the steps of a patented method in the sense contemplated by the phrase 'components of a patented invention' in section 271(f)." *NTP, Inc.* v. *Research in Motion, Ltd.*, 418 F.3d 1282, 1322 (Fed. Cir. 2005).

In *AT&T Corp.* v. *Microsoft Corp.*, 414 F.3d 1366 (Fed. Cir. 2005), the Federal Circuit suggested that it might limit its expansive reading of § 271(f) in the instant case to software patents. *Id.* at 1370. Of course, nothing in the language of the statute itself or in the principles of statutory construction would support reading the statute expansively for one industry's patents and narrowly for another's. As the effort to cabin its capacious reading of the statute to the software industry suggests, the Federal Circuit's approach is unsustainable when carried to its logical conclusion. But, the court of appeals has shown itself to be unable to right itself analytically. It therefore falls to this Court to provide a single, coherent analytical approach to the interpretation of § 271(f).

2. The Federal Circuit's decision does not withstand scrutiny. Respondents' only substantial reason to deny *certiorari* is that the Federal Circuit's decision was correct.

Opp. 6-13. But, their effort to defend the decision rests on a false premise that even the Federal Circuit has now made clear it no longer accepts. There is simply no way to read § 271(f) to cover the conduct at issue here without opening the floodgates to the extraterritorial expansion of U.S. patent law far beyond anything contemplated by Congress.

Respondents accept that the golden master disk is not a "component" of an allegedly infringing device. In Respondents' view, the intangible software code physically embodied on that disk, and made anew (in different physical form) on the foreign-made hard drive, is a "component" of both the golden master disk and the foreign-made computer. Opp. 8 (referring to the "software on Microsoft's golden master" as a "'component'"); *id.* at 14 (referring to the "software that makes the computers ... valuable" as a "'part'" of the computer). Respondents assert that the "ordinary meaning" of "component" includes intangible information (such as software code) reflected in different forms on different physical media. *Id.* at 7. It will ultimately fall to this Court to determine whether the statutory meaning of "component" defines the scope of § 271(f) as Respondents suggest.[2] But it is at least ironic that the Federal Circuit has

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[2] Respondents' reliance on various cobbled-together sources that use the term "component," outside the statutory context, to describe the relationship between computers and software sheds no light on the meaning of "component" in § 271(f). And, even if such non-statutory references were illuminating, they still would not help Respondents. The contexts of the references to "software" make clear that Respondents' sources refer not to the intangible software code expressible in a variety of physical ways, but rather to some physical computer-usable medium on which the software code is physically reflected. Respondents' argument thus begs the question. Nobody disputes that a foreign-made hard drive that has the Windows code installed on it by a foreign OEM can be a "component" of a foreign-made computer. But, Microsoft never supplied any hard drives with Windows code on them from the United States, so the hard drive cannot be the "component" "supplied" from the U.S. and

now made clear that it flatly rejects the premise of Respondents' argument. The Federal Circuit, in *Union Carbide*, said the "component" at issue in this case (*Eolas*) was not the mere intangible software code physically reflected in different ways on different media. The "component" in *Eolas*, the Federal Circuit said, is "a computer disc with program code." *Union Carbide*, 2005 WL 2416329, at *11. The disk itself—the physical, tangible item—is the "component" for purposes of § 271(f).

The Federal Circuit's abandonment of the major premise of its ruling here, while at the same time purporting to apply and extend that ruling, does more than reveal the depth of the Federal Circuit's analytical confusion. It illuminates brightly the importance of anchoring the definition of "component" in § 271(f) to some physical part of the allegedly infringing device. Allowing abstractions—like intangible software code—to serve as "components" for purposes of § 271(f) massively expands the extraterritorial reach of U.S. patent law in a way that Congress is presumed not to have intended.

Respondents' view entails the unnatural conclusion that the "components" of this brief are not only paper and ink, but also the ideas, arguments, and arrangement of arguments reflected in the way the ink is shaped. If the ideas and arguments in this brief are "components" of the brief, then the "idea" of a patented device is a "component" of the device itself. All patented inventions are physical embodiments of ideas, *Pfaff* v. *Wells Elecs., Inc.*, 525 U.S. 55, 67-68 (1998), just as all briefs are physical embodiments of the thoughts of the author. Any foreign-made product that if made in the U.S. would infringe a U.S. patent thus includes within it the "idea" of the invention. If that "idea" is deemed a "component" of the foreign-made product for purposes of § 271(f), then any time a product is made overseas using an

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"combined" with other components to produce the foreign-made computer.

"idea" supplied from the United States, the supplier of the mere "idea" is liable for infringement under § 271(f). Far from a limited exception to the rule against the extra-territorial application of U.S. patents, Respondents' view would open the floodgates to litigation seeking huge damages for alleged infringement of U.S. patents on foreign soil.[3]

As Respondents themselves recognize, software in computer-readable form is patentable because of the effect it has on a computer; it causes the computer to rearrange its circuitry, "making the computer useable in a way that is 'new and useful.'" Opp. 9 (quoting Pet. App. 21a); *In re Alappat*, 33 F.3d 1526, 1545 (Fed. Cir. 1994) (en banc). That is why Microsoft describes software as "design information"; for a computer to perform as intended, the circuitry of its hardware must be arranged/designed in a way that will produce the desired performance. Respondents assert that the allegedly infringing foreign-made products are a "combination" of the intangible software code and the computer hardware. Opp. 8. Respondents never deny that this means that the software, when installed, causes the computer hardware's circuitry to be rearranged so that the computer performs as intended.

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[3] Respondents are, in fact, proud of the broad extraterritorial scope of the rule they propose. They assert that "virtually the entire value" of Microsoft's Windows software is derived from the design and writing of that software in the U.S. (Opp. 11), and that infringement liability should be measured by the "value obtained" by the alleged infringer as a result of such design and development (*id.* at 16), *without regard to territorial limitations* based on the manufacture and sale of allegedly infringing products. But, "virtually the entire value" of any sophisticated product, from computer-related devices to pharmaceuticals to mobile telephones, is derived from its design and development, so the rule Respondents propose has no boundaries. The infringer of a tire patent who makes and sells 100 million tires in the U.S. and makes and sells another 200 million overseas is liable only for U.S. sales, even if the infringing tire was designed and tested in the U.S., and even if a single master mold used to make all 200 million tires overseas was shipped from the U.S. Respondents, in their zeal to capture foreign sales of Windows, are urging principles fundamentally at odds with the territorial limits of U.S. patents.

Instead, Respondents assert that the analogy to typical design information fails. Respondents deny that the supply of the golden master disk is like the supply of a tire mold. They claim that the design reflected in the tire mold is not a "component" of the tires that are made with it. *Id.* at 9. By contrast, they claim that the "software at issue here, *once embodied on a CD (or other computer usable medium)*, is in plain terms a 'component' of the" patented invention." *Id.* at 10. As the italicized language makes clear, Respondents (like the Federal Circuit in *Union Carbide*) conveniently abandon the major premise of their argument (that the intangible software itself is the "component" of the infringing device which is "supplied" from the U.S. and "combined" overseas with other components) in order to avoid the consequences that Microsoft rightly points out follow from that argument.

Respondents and the Federal Circuit cannot have it both ways. They cannot treat the intangible software code as the "component" for purposes of liability under § 271(f) and then shift gears by asserting that the tangible, computer-readable medium on which that code is reflected is the "component" in order to avoid the expansive consequences of their view. The liability Respondents seek for Microsoft's foreign sales is not based on any claim that the golden master CD (which is the "software at issue here ... *embodied on a CD*," *id.* at 10 (emphasis added)) becomes a part of any foreign-made computer. The intangible code reflected on that CD is made anew by the foreign OEMs and becomes reflected on the foreign-made computer's hard drive. Respondents cannot avoid the fact that the undisputed facts *require* them to premise their theory of liability on Microsoft's act of supplying the intangible software code (in whatever form) abroad.[4] And, Respondents likewise cannot escape the

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[4] As noted above, *supra* at 3-4, 6-7 & n.2, Respondents' theory also necessarily rests on the premise that the intangible code reflected on the hard drives of the foreign-made computers was itself "supplied" from the